RATE HEARING

May 1, 2014

Northern Water
Rate Hearing Agenda

- Introduction and Background (Northern Water)
- Rate Study Presentation (CH2MHiil)
- Summary of Meeting and Meeting Comments (Northern Water)
- Draft Resolution Outline (Northern Water)
- Public Comment
- Board Discussion
Background Materials
Water Conservancy Act (Section 122)

- Class A – Property Taxes
  - Levy and collect taxes on all property within District boundaries
  - For districts formed prior to April 22, 1957, rate shall not exceed one mill

37-45-122. Levy and collection under class A.
(1) As to any district formed prior to April 22, 1957, to levy and collect taxes under class A, in each year, the board shall determine the amount of money necessary to be raised by taxation, taking into consideration other sources of revenue of the district, and shall fix a rate of levy which when levied upon every dollar of valuation for assessment of property within the district and with other revenues will raise the amount required by the district to supply funds for paying expenses of organization, for surveys and plans, and for paying the costs of construction of, operating, and maintaining the works of the district. The rate shall not exceed one-half mill on the dollar, prior to the delivery of water from the works, and thereafter shall not exceed one mill on the dollar of valuation for assessment of the property within the district, except in the event of accruing defaults or deficiencies when an additional levy may be made as provided in section 37-45-126.
Water Conservancy Act (Sections 123-125)

- Class B, C and D – Assessments
  - Board shall determine rates and terms for water delivery
  - Equitable although not necessarily equal or uniform
  - Periodically examined and adjusted

37-45-123. Levy and collection under class B.
(1) (a) To levy and collect special assessments under class B, the board shall make an allotment of water or of capacity of specified works to each petitioning municipality in the district in the manner provided in this article and in such quantity as will in the judgment of the board, when added to the then present supply of water of such municipality in the case of an allotment of water, or when added to the then present supply of capacity of all other works of such municipality in the case of an allotment of capacity of specified works, make an adequate supply for such municipality and shall fix and determine the rate and the terms upon which such water or capacity of such works shall be sold, leased, contracted for, or otherwise disposed of for use by such municipalities; except that such rates shall be equitable although not necessarily equal or uniform for like classes of services throughout the district and no municipality shall be required to make payments to secure or cover the default or failure of performance pertaining to capital debt of any other participating municipality which participates in a project in which the capacity of the specified works has been allotted to two or more participants.

(b) The board shall examine all rates charged for like classes of service throughout the district and shall by rule and regulation adjust such rates periodically as needed to make such rates within any such class of service equitable.
Repayment Contract

- Article 15 – Minimum Levies and Assessments. Disposition of Excess Revenues.
  - Levies and assessments shall meet the District’s obligations under the repayment contract.
  - District shall exercise its full powers under the Water Conservancy Act to produce the funds necessary to meet all obligations.
- Article 14 – Definition of Costs
- Article 9 – Cost of O&M
  - Joint Works – Shared with Reclamation
  - Transferred Works – Northern Water
Assessment Rates

- **Current Rates**
  - Irrigation - $10.00 per AFU
  - Other Uses - $28.00 per AFU
  - Unit 2 and Tax Exempt Surcharge - $0.50 per AFU
  - Winter Service Charge - $200 + $1.50 per ac-ft delivered

Based on Findings of 1998 Study

Assessment Rate ($/AFU)

- Irrigation
- Industrial
- Municipal

Municipal and Industrial Rates Merged in 2002

Fixed Rate = $1.50

Assessment Rate ($/AFU)
Recent Financial Performance

**Pre-Recession**
- Property tax revenue aligned with expenses
  - 8% annual increase in tax revenue
- Enhanced reserves
  - Property tax revenue
  - Large inclusions
  - Building sale
- Small increases in assessments (small revenue requirement)

**Post-Recession**
- Flat property tax revenue, increasing expenses
  - 1% annual increase in tax revenue
- Large capital expenditures
- Small increases in assessments (based on willingness to pay rather than revenue requirement)
Historical Revenue and Expenses
Rate Study
Rate Study

- Performed by CH2M HILL Engineers, Inc., Denver

**Competitive Procurement Process**
- RFQ sent to 17 firms
- SOQ submittals from 7 firms
- Interviewed 4 firms

**Reasons for Selection**
- Best approach/schedule for doing study needed
- Best experience with Districts similar to Northern Water
- Substantial South Platte basin agricultural experience
- Consultant Fee (rate schedule) among lowest
Working Group Meetings
Summary of Working Group Meetings

- Provide general direction for and discussion of the Rate Study
- Staff, representatives from Board, Legal Counsel, Consultants
- 5 Meetings
  - 10/14/2013 – Kickoff Meeting
  - 11/18/2013 – Financial Plan
  - 2/5/2014 – Cost-of-Service & Ability-to-Pay Analyses
  - 2/28/2014 – Rate Design
  - 3/24/2014 – Rate Design
Meetings and Allottee Information
## Summary of Allottee, Board and Other Meetings

<table>
<thead>
<tr>
<th>Meeting Date</th>
<th>Meeting and Location</th>
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<tbody>
<tr>
<td>12/5/2013</td>
<td>Northern Water Board Retreat, Northern Water, Berthoud *</td>
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<td>1/2/2014</td>
<td>Northern Water Planning &amp; Action Meeting, Northern Water, Berthoud *</td>
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<td>1/10/2014</td>
<td>Allottee Meeting, Northern Water, Berthoud *</td>
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<td>3/4/2014</td>
<td>Water Quality Stakeholders Meeting, Northern Water, Berthoud *</td>
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<td>3/6/2014</td>
<td>Northern Water Planning &amp; Action Meeting, Northern Water, Berthoud *</td>
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<td>4/3/2014</td>
<td>Northern Water Planning &amp; Action Meeting, Northern Water, Berthoud *</td>
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<td>Northern Integrated Supply Project (NISP) Participants Meeting, Northern Water, Berthoud</td>
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<td>4/8/2014</td>
<td>Windy Gap Participants Meeting, Northern Water, Berthoud</td>
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<td>4/9/2014</td>
<td>Allottee Meeting, The Ranch, Loveland *</td>
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<td>4/17/2014</td>
<td>Meeting with Tri-Districts (North Weld County Water District, Fort Collins-Loveland Water District, East Larimer County Water District) and Little Thompson Water District at Soldier Canyon Filter Plant, Fort Collins</td>
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*Indicates that meeting materials are provided separately in the Rate Hearing Notebook for this meeting.*
Comments
General Comment Summary

- Fixed rate contracts are not fair and equitable
- Consider special assessments
- Transition to cost-of-service based rates for all classes
- Limit FY2015 increase to 9%
- Prefer smooth increases to avoid rate shock
- Annual update rate model and projections
- General concern over impact to municipal and irrigation water users
- Extend Rate Hearing to June 5 to allow additional review time
Allotment Contracts
## Allotment Contract Summary

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<tr>
<th>Class</th>
<th>Allottee</th>
<th>C-BT Units (AFU)</th>
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<td></td>
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<td>Fixed</td>
<td>Open</td>
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<td>Class B (Municipal)</td>
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<td>637</td>
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<td>Boulder, City Of</td>
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<td>12,803</td>
<td>18,855</td>
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<td>Class C (Corporate)</td>
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<td>C</td>
<td>Board of Governors of CSU System</td>
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<td>77</td>
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<td>Emissaries Of Divine Light</td>
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<td>Weld</td>
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<td>100,256</td>
<td>209,742</td>
<td>309,998</td>
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(1) Includes independent water districts.
(2) Excludes independent water districts.
(3) Excludes independent water districts.
City of Loveland Fixed-Rate Contract

- Northern Water may adopt any financial plan which does not increase annual payment of $1.50 per acre-foot [unit]
- Fixed-rate contracts passed by City Ordinance/Resolution (NPIC)
Draft Resolution
Recommended Board Considerations

- Set FY2015 Assessment Rates
  - All options included a 9% increase for M&I and Irrigation
  - Transition to potentially higher future assessment rates
  - Documented in Rate Study report

- Provide Forward Guidance
  - Possibly by resolution
  - Rate Study will be finalized based on forward guidance
Draft Resolution Outline

- Assessment Practice
  - Irrigation at Ability-to-Pay (Option 1)
  - Irrigation at Cost-of-Service (Option 2, 3)
    - Fixed Rate Recovery by M&I (Option 2)
    - Fixed Rate Recovery by M&I and Irrigation (Option 3)

- Implementation – smooth or step
- Establish reserve targets
- Commitment to update rate model annually
- Commitment to continued internal cost control, continue seeking joint funding opportunities